

Logan County Electricity Aggregation Consortium

APRIL 4, 2016

FARNSWORTH GROUP | ICCAN



Outline

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Introductions

STEVEN SMITH

Farnsworth Group

- Director of Business Development and Renewable Energy
- Economic Development Advisor to central Illinois communities including Logan County

Illinois American Water

- Managed asset acquisition and system construction projects

Ameren-CILCO

- General Manager for meter reading, customer billing and customer service

MARK PRUITT

Illinois Community Choice (ICCAN)

- Advisor to over 60 aggregation programs including Chicago
- Advisor to Argonne National Lab, Illinois Institute of Technology and US DOE Grow Solar program


Illinois Power Agency

- Established pricing for Ameren and ComEd residential customers

University of Illinois

- Managed electricity and natural gas purchasing for 39 state agencies and 12 municipalities

Background: Retail Choice



ACCOUNT NUMBER	1	01234-56789	4	BILL DATE	Nov 16, 2010
NAME	JOHN DOE	2			
SERVICE	123 N MAIN	3			
AT	ANYTOWN, IL 61602				

Payment received on Oct 25, 2010 98-27

TOTAL AMOUNT DUE BY	5	Dec 7, 2010	\$110.13
AMOUNT PAYABLE AFTER DUE DATE	6		\$111.77

TYPE OF READING	METER NUMBER	SERVICE FROM TO	NO. DAYS	METER READING PREVIOUS	METER READING PRESENT	READING DIFFERENCE	METER MULTIPLIER	THERM FACTOR	USAGE	R D
Total kWh	1	10/15/10	10	1200.00	1550.0000	350.0000	1.0000	1.0000	350.0000	16
Total Therms	987654	10/15-11/15	31	1000.0000	1048.0000	48.0000	1.0000	1.0000	48.0000	A
<p>Service To 11/15/2010</p> <p>SUMMARY</p> <p>Total kWh 350.0000 Sales Therm 48.0000</p>										

17 ELECTRIC SERVICE BILLING DETAIL - Rate Zone I

DS - Residential Service (DS-1)		Service From 10/15/2010 to 11/15/2010	
Annual kWh Up to 7,999			
Customer Charge			\$13.55
Meter Charge			\$4.72
Distribution Deliv Chg Non-Summer	350.00 kWh @	\$0.01528000	\$5.09
Electric Environmental Adj	350.00 kWh @	\$0.00205710	\$0.72
Rider EDR Charge	350.00 kWh @	\$0.00168571	\$0.59
Total Delivery Service Amount			\$24.67
Electric Supply (BGS-1)		Service From 10/15/2010 to 11/15/2010	
Purch Elec Non-Summer(0-800 kWh)	350.00 kWh @	\$0.05893000	\$20.74
Purchased Electric Adj	350.00 kWh @	-\$0.00294286	-\$1.03
Rider PER Supply Cost Adj	350.00 kWh @	\$0.00208571	\$0.73
Transmission Service Charge	350.00 kWh @	\$0.00308571	\$1.08
Total Supply Amount			\$21.52
Taxes		Service From 10/15/2010 to 11/15/2010	
Illinois State Electricity Excise Tax			\$1.16
Distribution Tax			\$0.45
Total Tax Related Charges			\$1.61
Total Electric Charges			\$47.80

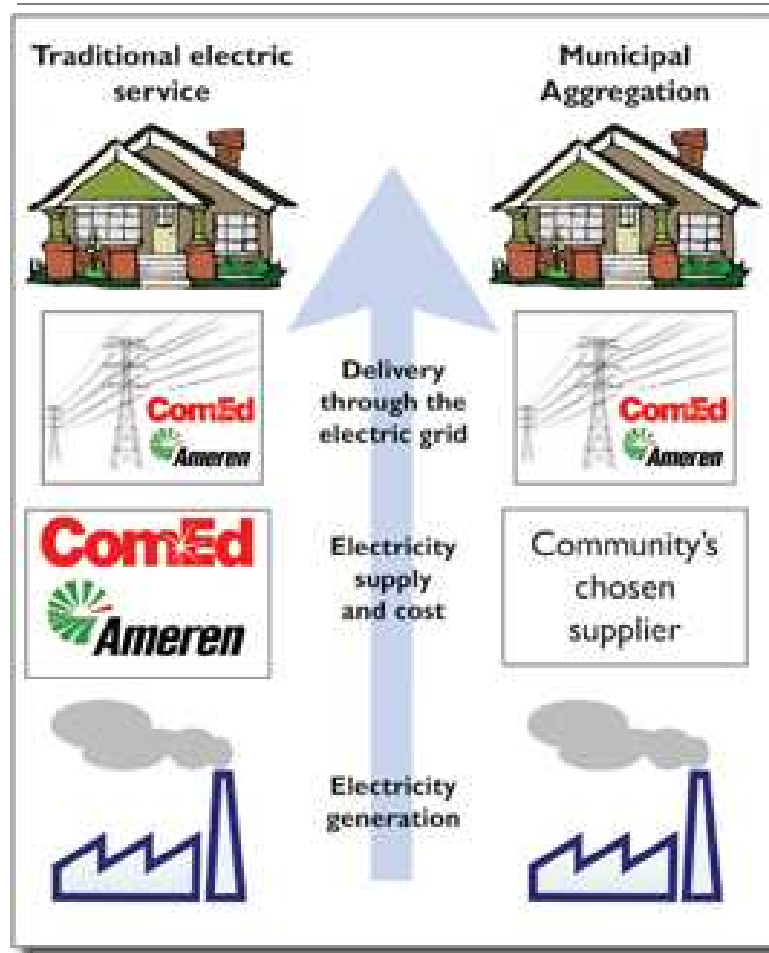
Lincoln residents can choose their supplier:

- Ameren Illinois
- Retail Electricity Supplier
 - Residential (26)
 - Commercial (30)

The only thing that changes is the price for Electric Supply

Accounts that do not choose a supplier get the Ameren Rate

Background: Aggregation



Local municipalities may negotiate electricity supply contracts on behalf of residential and small commercial accounts within their borders.

- Automatic enrollment

Consumers still have choice:

- Aggregation program
- Another retail electricity supplier
- Ameren Illinois default or hourly rates

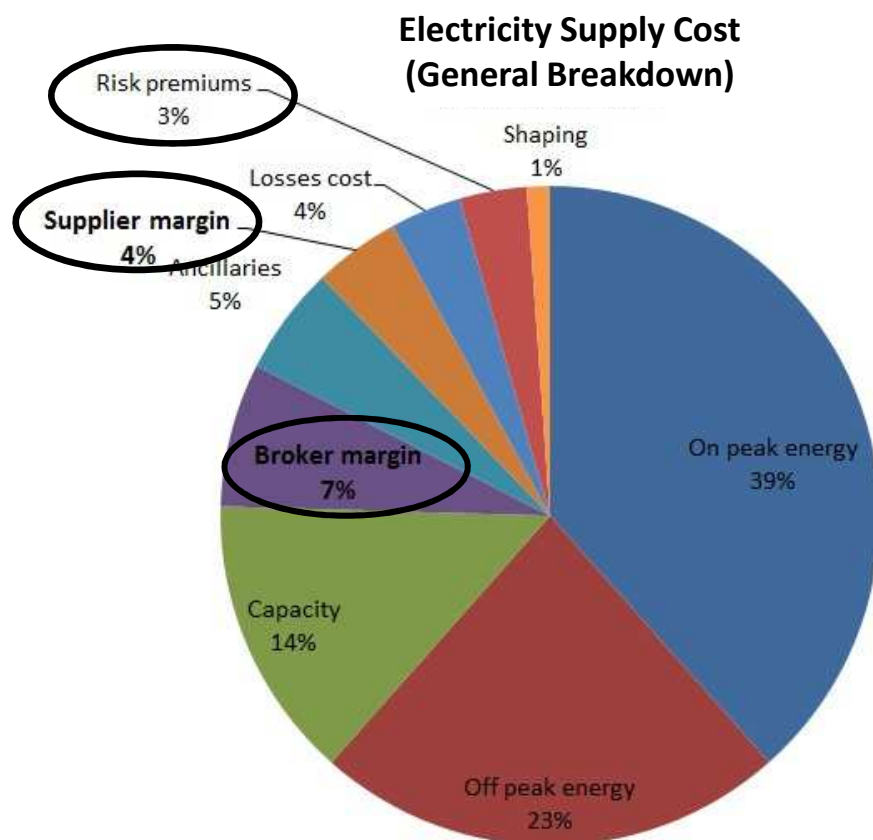
Aggregation programs seek to deliver:

- Consumer savings, economic development, policy fulfillment

Aggregation programs seek to avoid:

- Consumer losses

Background: Aggregation



Most supply costs are market-based or set by tariff

- Energy (peak and off-peak)
- Capacity
- Transmission (Ancillaries)
- Losses

Aggregation generates value through:

- Lower Supplier Margin, Broker Margin, Risk Premiums

There is no “volume discount” to get cheaper electricity:

- Sometimes aggregations have timed their purchases well (similar to locking in home mortgage rates)

Program Review: Process

Organized in 2012

- Created consortium with Atlanta, Emden, Logan County, Mt. Pulaski, New Holland, and other non-Logan County communities

Program Objectives

- Savings for all residents
- Lower Prices than what residents could get on their own

Solicitation Process

- Request for Qualifications with separate Request for Proposals
- 5 Bidders

Supply Contract

- Integrys Energy Services
- Fixed Price: 3.965¢/kWh (Lowest price in the state)
- Renewables: Increased to 25% (increased final price to 4.1¢/kWh)
- Started deliveries in September 2012

Program Review: Approach

Costs and Savings

- Costs: \$1,875 for consulting services (Farnsworth and ICCAN)
 - \$0.000275/kWh vs. \$0.0050 - \$0.0075/kWh paid by other communities
- Savings: ~\$60,000 citywide

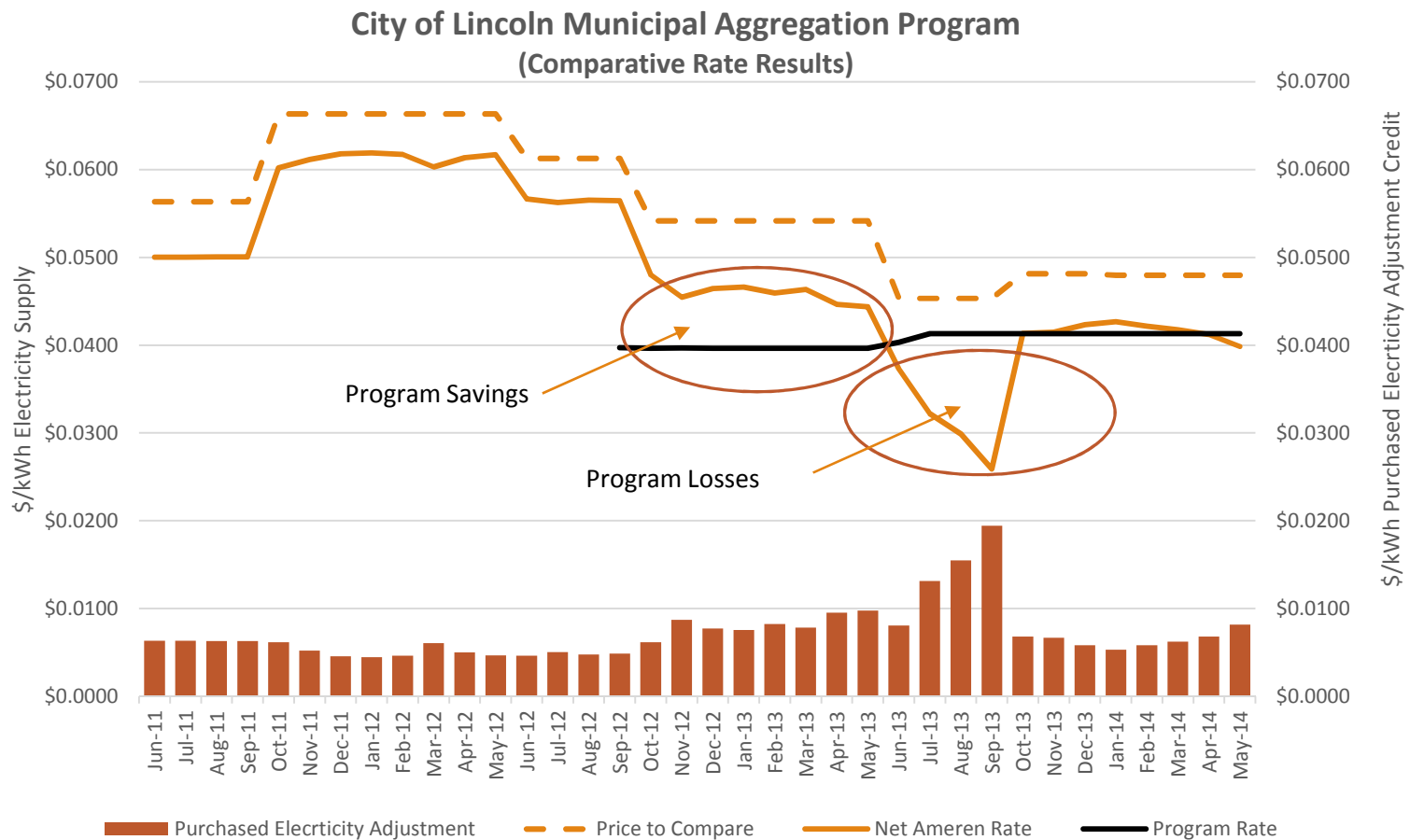
Program Savings

$$\begin{aligned} & \text{Ameren Default Rate} + \text{Purchased Electricity Adjustment} \\ - & \text{Aggregation Program Rate} \\ \hline = & \text{Program Savings} \end{aligned}$$

Purchased Electricity Adjustment

- A monthly true-up credit or charge applied to Ameren default accounts
- Announced 2 weeks before each billing month
- Approved by the Illinois Commerce Commission

Program Review: Results



Program Review: Back to Ameren

Pricing Offers for Program Year 3 were Rejected

- Price offers ranged between 4.6 and 4.8¢/kWh
- No savings guarantee when factored for likely PEA credits
- ICCAN advised returning accounts to Ameren, communities agreed

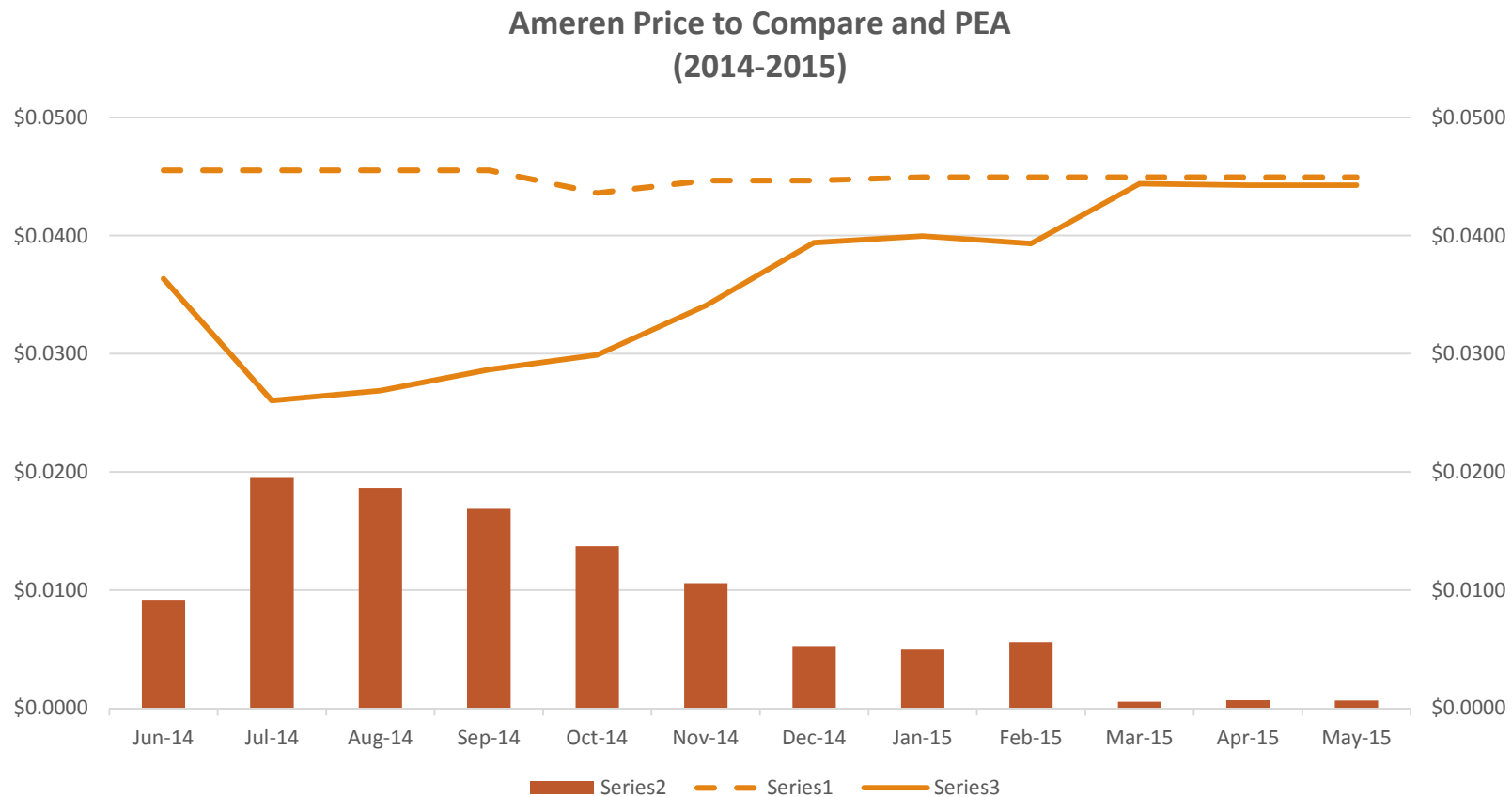
Consortium accounts returned to Ameren

- No penalties
- No fees

Many aggregation programs in the Ameren region that continued to operate eventually lost money due to high PEA credits

On average, Lincoln residents that were on the Ameren Default rate for the 2014-2015 period saved ~\$50 compared to retail rates during that period.

Program Review: Avoided Losses



Program Review: Avoided Loss

Ameren Region: Rate Zone 1	Price To Compare (¢/kWh)	Purchased Electricity Adjustment (¢/kWh)	Adjusted Price to Compare (¢/kWh)	Program Rate (¢/kWh)	Savings / (Loss)
Communities: Chrisman, Kansas, Petersberg					
Consortium: Stone River					
June-14	4.657	-0.919	3.738	4.557	-17.97%
July-14	4.657	-1.949	2.708	4.557	-40.57%
August-14	4.657	-1.865	2.792	4.557	-38.73%
September-14	4.657	-1.688	2.969	4.557	-34.85%
October-14	4.465	-1.371	3.094	4.557	-32.10%
November-14	4.571	-1.058	3.513	4.557	-22.91%
December-14	4.571	-0.527	4.044	4.557	-11.26%
January-15	4.598	-0.497	4.101	4.557	-10.01%
February-15	4.598	-0.561	4.037	4.557	-11.41%
March-15	4.598	-0.056	4.542	4.557	-0.33%
April-15	4.598	-0.068	4.530	4.557	-0.59%
May-15	4.598	-0.067	4.531	4.557	-0.57%
Annual Average	4.4989	-0.964	3.717	4.32	-13.97%

Current Market: Ameren Rates

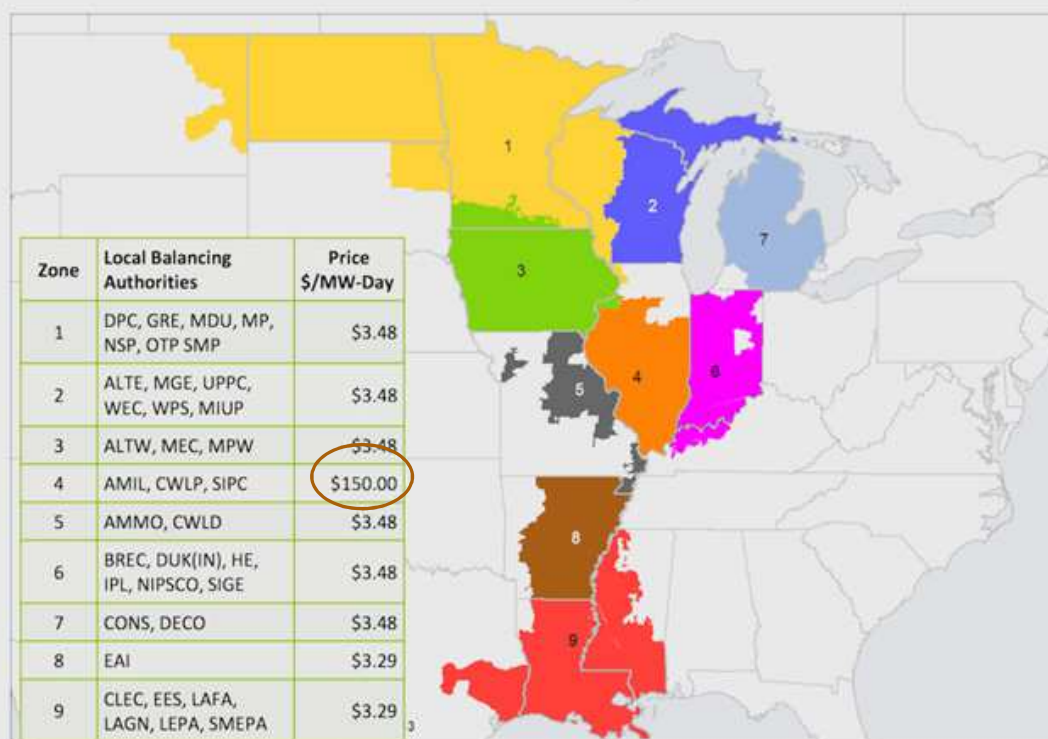
Ameren's Current Default Rate Change:

- Approved from October 2015 – May 2016
- Frontloads ~ 1.0-2.0¢/kWh onto the first 800 kWh of monthly consumption to collect increased capacity charges resulting from MISO Auction for central and southern Illinois

Ameren Illinois Rate Zone	First 800 kWh of monthly consumption	+800 kWh of monthly consumption
Rate Zone I	6.776¢	4.679¢
Rate Zone II	6.713¢	4.616¢
Rate Zone III	6.768¢	4.671¢

Current Market: MISO Capacity

2015/2016 Auction Clearing Price Overview



(Source: MISO)

MISO sets capacity rates through an auction process on an annual schedule

Capacity rates for the Ameren portion of MISO (Zone 4) for the June 2015-May 2016 period were substantially higher than neighboring MISO Zones

The higher rates account for 1.0 – 2.0 cents per kWh of the first tier of Ameren's new rate structure

Current Market: Investigation

Complaints filed by multiple parties to Federal Energy Regulatory Commission (FERC) regarding the MISO Capacity Auction

- Market manipulation by bidders
- Faulty auction rules that allowed some bidders to exercise market power

FERC ordered an investigation into the auction, and for MISO to propose new Capacity Auction rules, including the potential for refunds: regarding the MISO Capacity Auction

- “If FERC follows the logic of its New Year’s Eve ruling, and regardless of whether the commission finds Dynegy manipulated the market, then Illinois consumers will be in line for tens of millions of dollars in refunds,” Tyson Slocum, director of Public Citizen’s energy program.
- “It’s great news that FERC has acknowledged downstate electric customers deserve relief from an inflated and absurd pricing process. I am pleased with FERC’s decision to fix the auction rules, but FERC still needs to order refunds to consumers for the outrageously high prices,” Illinois Attorney General Lisa Madigan.

Current Market: Refund Math

If MISO is ordered to refund back \$125 of the \$150 capacity rate

- Refund Rate would be \$0.01-\$0.015/kWh
- Refund amount would be ~\$130

Refunds would only be for accounts effected by the Auction rate MISO Capacity Auction

- Ameren default rate customers between 6/2015 – 5/2016
- Not aggregation program customers

Potential refunds greatly outweigh potential savings from an aggregation program (estimated at ~\$28 for an average residential account when factored for the Purchased Electricity Adjustment)

- This supported a recommendation to continue idling the aggregation program for the 2015-2016 period.

Current Market: Other Options

Lincoln resident can still secure electricity supply through retail electricity suppliers – at rates better than many aggregation program offers

From the ICC Website

- AEP Energy (\$0.0555/kWh)
- Ambit Energy (\$0.0566/kWh)
- ILG&E (\$0.0569.kWh)
- Direct Energy (\$0.0569.kWh)

From the ICC Website

- Chrisman (\$0.05827/kWh)
- Kansas (\$0.05824/kWh)
- Petersburg (\$0.05824.kWh)
- Bloomington (\$0.05669.kWh)
- Quincy (\$0.0579.kWh)
- Carbondale (\$0.05801/kWh)
- Taylorville (\$0.0587/kWh)
- Champaign (\$0.05926/kWh)

Again, there are no “volume discounts” that guarantee savings.

Moving Forward: Options

Check the market

- Solicit prices for June 2016 - May 2017
- Solicit prices around May to account for:
 - The outcomes of the next MISO capacity auction
 - The next Ameren default rates
- Only accept pricing that:
 - Treats capacity as a pass-through
 - Allows residents to exit the contract without penalties or fees

Convert to Opt-In approach

- Present a pricing offer to residents, but do not automatically enroll.
- www.myenergychicago.com

Moving Forward: Cautions

Outside pressure

- Consultants and brokers earn fees when there is a transaction
- Some municipal aggregation consultants in Illinois are earning more than their communities are saving.

Brokers

- They represent suppliers and tend to direct their clients to those suppliers

Do the Math

- Electricity purchasing is about managing risk
- There are no guaranteed savings, so aggregation communities should identify how much risk they want to take on for their residents.

Conclusions

PAST AGGREGATION DECISIONS

Initial aggregation offer

- Saved money based on one of the lowest reported rates in the state.

Idling the program

- Saved money based on recognizing that utility credits (PEA) provided lower net prices than any aggregation program price

Opting for Refund over program

- Waiting for the FERC investigation of MISO capacity rates is likely to yield higher refunds than any savings from an aggregation program might offer

FUTURE AGGREGATION DECISIONS

Need to be guided by objectives

- Guaranteed savings
- Lower prices than individual offers

Timing is critical

- Must see new regional capacity rates to receive multiple retail supply offers
- Must see new Ameren rates before accepting any retail supply offer
- Must remember that the Ameren rates are adjusted every month by the PEA (usually with a credit) before accepting any retail supply offer.
- Changing market conditions may be completely different from today's

Final thoughts

ICCAN and Farnsworth Group have appreciated the opportunity to work with the Logan County communities and the City of Lincoln since 2012.

Our focus has always been on presenting the best options for the communities, even when those options prevent us from having a supply contract to charge against.

We believe that the communities want to enroll residents into aggression contracts that are guaranteed to save money – and not to gamble in a changing and complex utility market.

Final thoughts
